



State of Rhode Island and Providence Plantations

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Date: November 16, 1999

Subject: November 1998 Consensus Revenue Estimating Conference

Summary

The Revenue Estimating Conference met November 9 in an open public meeting to adopt the economic forecast, review enacted FY 1999 revenue estimates and prepare first FY 2000 estimates. The Conference revised the FY 1999 estimates upward by \$66.3 million based on FY 1998 actual revenues and collections through October.

The Conference estimated FY 2000 revenues at \$2,029.6 million, which is \$6.0 million less than the revised FY 1999 estimates. The estimates are based on current laws, which include lower income tax rates and expiration of the hospital tax. Tables are included at the end.

Economic Forecast

The Conferees met with the consulting economists from DRI/McGraw Hill, Regional Financial Associates, and New England Economic Project on October 28 to review economic forecasts (Sara Johnson and Rachel Chioino, Paul Getman, and Len Lardaro, respectively). Legislation enacted by the 1998 Assembly amended the Revenue Estimating Conference statutes to require a consensus economic forecast. That forecast appears in the table below.

All agreed that FY 1998 was a high growth year for Rhode Island, but the baseline forecasts showed growth slowing in the near future. The consulting economists each produced an

alternate forecast for recession in 1999, and all agreed it would be mild if it occurred. They assigned probabilities ranging from one in three to 45 percent. These are higher probabilities than they have generally been offered for alternate forecasts.

<b>Economic Forecast</b>	<b>FY 1997</b>	<b>FY 1998</b>	<b>FY 1999</b>	<b>FY 2000</b>
<i>Employment (thousands)</i>	445.1	453.0	457.5	461.0
<i>Employment Change</i>	1.1%	1.8%	1.0%	0.8%
<i>Personal Income (billions)</i>	\$ 24.9	\$ 26.2	\$ 27.5	\$ 28.7
<i>Personal Income Change</i>	4.1%	5.2%	5.0%	4.5%
<i>CPI-U Change (U.S.)</i>	2.8%	1.8%	2.0%	2.6%

The consensus forecast does not include a recession, but does include slowed growth. Resident employment, which is the number of Rhode Islanders working, is estimated to grow by 8,000 during the two-year period of FY 1999 and FY 2000. This would still leave Rhode Island with fewer working than at the peak 462.0 thousand jobs in 1989.

Personal income is estimated to continue to grow as wages and salaries respond to tightened workforce availability. Inflation is expected to remain below three percent. The Conference uses the United States Consumer Price Index for all Urban Consumers This is measured and reported by the Bureau of Labor Statistics of the Department of Labor.

## Revenues

**Taxes.** Revenues from taxes are estimated to grow 3.4 percent in FY 1999 and 3.0 percent in FY 2000. These are unadjusted rates, and do not reflect the impact of tax law changes. If these were factored in, the growth rates would be higher.

Total estimated taxes for FY 1999 are \$55.7 million above the enacted estimates. FY 2000 total estimated taxes are \$50.6 million above the revised FY 1999 estimate.

**Personal Income Tax.** The estimate of \$759.8 million for FY 1999 and \$780.7 million for FY 2000 represents adjusted growth rates of 8.3 percent and 5.2 percent respectively. However, the growth rates reflect the 5-year phase in of the tax reduction adopted by the 1997 Assembly that lowers tax rates from 27.5 percent of federal liability to 25.0 percent. That costs approximately \$15.0 million in FY 1999 and an additional \$16.0 million in FY 2000.

There are other adjustments from federal tax law changes and certain state tax credits that would also need to be adjusted for underlying growth calculations. Those calculations yield rates of 11.5 percent growth for FY 1999 and 4.7 percent for FY 2000. This reflects the slowing down of the economy.

**Business Taxes.** The Conference estimates \$203.4 million in FY 1999 and \$214.6 million in FY 2000. Growth rates are -1.6 percent and 5.5 percent, respectively. The FY 1999 estimate is \$2.5 million less than enacted. The FY 1999 change is largely a result of large refunds and

use of excess payments in prior years used to offset current liabilities. The conferees estimate that these will be used up in tax year 1999, and that FY 2000 will return to normal.

**Sales Tax.** The Conferees estimate sales tax revenues of \$565.0 million in FY 1999 and \$584.0 million in FY 2000. The FY 1999 revenues are \$17.1 million greater than the enacted estimate, and represent growth of \$34.6 million over actual FY 1998 receipts. Adjusted growth rates for the sales tax are 8.6 percent for FY 1998, 6.6 percent for FY 1999 and 3.3 percent for FY 2000.

**Other Sales and Use Taxes.** The Conferees estimated \$113.7 million for FY 1999 and \$113.8 million for FY 2000 from the other sales and use taxes, which include motor vehicle fees, cigarettes, and alcohol taxes. These represent minimal annual changes on an adjusted basis. The FY 1999 estimate is \$0.6 million below enacted, principally due to cigarettes taxes running behind estimated.

**Other Taxes.** The inheritance, racing and athletics, and realty transfer taxes are estimated to produce \$35.4 million in FY 1999 and \$34.8 million in FY 2000. The FY 1999 estimate is \$13.0 million above the enacted estimate due to the inheritance tax. The drop off in FY 2000 is due to the change in the distribution of the realty transfer tax adopted by the 1998 Assembly. FY 1999 contains a one-month tail from the prior distribution formula.

**Departmental Receipts.** The estimators adopted estimates of \$191.2 million in FY 1999 and \$152.1 million in FY 2000 for these sources which include licenses and fees, fines and penalties, sales and services, and miscellaneous departmental earnings deposited as general revenues. The FY 1999 estimate is a minor revision of \$2.0 million to the enacted estimate.

FY 2000 drops off mainly due to the end of the hospital license fee in FY 1999, which produces approximately \$37.4 million. That fee has been on a year to year basis, and has been extended each year since its inception. However, the estimators must estimate within current law, under which there would not be a fee in FY 2000.

**Other Sources.** Other source revenue consists of transfers to the general revenue fund from gas tax deposited in the transportation fund, the lottery, unclaimed property, and other miscellaneous sources. These are estimated to produce \$167.1 million in FY 1999 and \$149.6 million in FY 2000. The FY 1999 estimate is a \$8.7 million increase to enacted estimates based upon the performance to date of the lottery.

FY 2000 is \$17.6 million less than this revised estimate due to dedication of an additional cent of gas tax to transportation under current law (\$4.5 million) and changes to the other miscellaneous sources. The latter includes dedication of bond proceeds earnings to the Sinking Fund in FY 2000 (\$6.0 million), no Resource Recovery Corporation Transfer in FY 2000 (\$4.0 million), and assumed receipt of the \$6.0 million in employee medical costs recovered from Blue Cross in FY 1999.

The Lottery is estimated to transfer \$121.8 million in FY 1999 and \$125.2 million in FY 2000. The FY 1999 estimate is an upward revision of \$9.1 million over the enacted estimate, and represents 6.3 percent growth over FY 1998. Most of the change to the enacted estimate is in the games, a revision of \$6.1 million based on the transfers to date arising from the large Powerball prizes.

Keno is expected to grow 3.0 percent to \$12.0 million in FY 1999 and maintain the \$12.0 million level in FY 2000. Transfers from video lottery terminals are estimated to grow 8.2 percent in FY 1999 to \$69.2 million, and further by 5.3 percent in FY 2000 to \$72.6 million.

November 1998 Conference		FY 1998 Preliminary		FY 1999 Estimate		FY 2000 Estimate	
Personal Income Tax	\$	724,261,218	14.6%	759,800,000	4.9%	780,700,000	2.8%
<b>General Business Taxes</b>							
Business Corporations		71,541,900	5.6%	70,000,000	-2.2%	70,800,000	1.1%
Franchise		7,314,729	6.5%	7,300,000	-0.2%	7,300,000	0.0%
Public Utilities Gross		62,330,189	-10.2%	62,300,000	0.0%	62,300,000	0.0%
Financial Institutions		(1,157,614)	-105.7%	(800,000)	-30.9%	7,000,000	-975.0%
Insurance Companies		41,817,850	26.6%	41,300,000	-1.2%	41,600,000	0.7%
Bank Deposits		1,387,515	-66.0%	(900,000)	-164.9%	700,000	-177.8%
Health Care Provider		23,546,817	4.8%	24,200,000	2.8%	24,900,000	2.9%
<b>Sales and Use Taxes</b>							
Sales and Use		530,402,604	8.4%	565,000,000	6.5%	584,000,000	3.4%
Motor Vehicle		40,328,576	9.9%	40,700,000	0.9%	40,800,000	0.2%
Motor Fuel		4,947,942	5.2%	700,000	-85.9%	735,000	5.0%
Cigarettes		64,188,076	17.0%	63,700,000	-0.8%	63,700,000	0.0%
Alcohol		7,622,187	-9.0%	8,600,000	12.8%	8,600,000	0.0%
Controlled Substances		7	-77.8%	-	-	-	-
<b>Other Taxes</b>							
Inheritance and Gift		31,524,415	161.1%	27,000,000	-14.4%	27,000,000	0.0%
Racing and Athletics		5,979,095	5.9%	6,000,000	0.3%	6,000,000	0.0%
Realty Transfer		6,415,339	26.5%	2,400,000	-62.6%	1,800,000	-25.0%
<b>SubTotal - Taxes</b>		<b>1,622,450,845</b>	<b>10.2%</b>	<b>1,677,300,000</b>	<b>3.4%</b>	<b>1,727,935,000</b>	<b>3.0%</b>
<b>Departmental Receipts</b>							
Licenses and Fees		101,455,524	-2.4%	102,000,000	0.5%	63,300,000	-37.9%
Fines and Penalties		25,514,709	12.9%	26,200,000	2.7%	25,800,000	-1.5%
Sales and Services		30,422,087	-19.9%	30,000,000	-1.4%	30,000,000	0.0%
Miscellaneous Departmentals		31,896,427	40.7%	32,967,000	3.4%	32,967,000	0.0%
<b>SubTotal - Departmentals</b>		<b>189,288,746</b>	<b>1.1%</b>	<b>191,167,000</b>	<b>1.0%</b>	<b>152,067,000</b>	<b>-20.5%</b>
<b>Taxes and Departmentals</b>		<b>1,811,739,591</b>	<b>9.1%</b>	<b>1,868,467,000</b>	<b>3.1%</b>	<b>1,880,002,000</b>	<b>0.6%</b>
<b>Other Sources</b>							
Gas Tax Transfer		30,412,271	-19.4%	20,250,000	-33.4%	15,925,000	-21.4%
Other Miscellaneous		32,721,004	-17.4%	21,066,910	-35.6%	4,634,355	-78.0%
Lottery		114,616,253	14.6%	121,800,000	6.3%	125,200,000	2.8%
Unclaimed Property		3,693,926	-26.6%	4,000,000	8.3%	3,800,000	-5.0%
<b>SubTotal</b>		<b>181,443,454</b>	<b>-0.5%</b>	<b>167,116,910</b>	<b>-7.9%</b>	<b>149,559,355</b>	<b>-10.5%</b>
<b>Total General Revenues</b>		<b>1,993,183,045</b>	<b>8.2%</b>	<b>2,035,583,910</b>	<b>2.1%</b>	<b>2,029,561,355</b>	<b>-0.3%</b>

November 1998 Conference	FY 1999 November Estimate	Change to Enacted Estimate	FY 2000 November Estimate	Growth over FY 1999 November Estimate
<b>Personal Income Tax</b>	759,800,000	28,724,500	780,700,000	20,900,000
<b>General Business Taxes</b>				
Business Corporations	70,000,000	4,383,000	70,800,000	800,000
Franchise	7,300,000	-	7,300,000	-
Public Utilities Gross	62,300,000	1,700,000	62,300,000	-
Financial Institutions	(800,000)	(7,800,000)	7,000,000	7,800,000
Insurance Companies	41,300,000	700,000	41,600,000	300,000
Bank Deposits	(900,000)	(1,700,000)	700,000	1,600,000
Health Care Provider	24,200,000	200,000	24,900,000	700,000
<b>Sales and Use Taxes</b>				
Sales and Use	565,000,000	17,055,815	584,000,000	19,000,000
Motor Vehicle	40,700,000	200,000	40,800,000	100,000
Motor Fuel	700,000	200,000	735,000	35,000
Cigarettes	63,700,000	(1,300,000)	63,700,000	-
Alcohol	8,600,000	300,000	8,600,000	-
Controlled Substances	-	-	-	-
<b>Other Taxes</b>				
Inheritance and Gift	27,000,000	12,000,000	27,000,000	-
Racing and Athletics	6,000,000	300,000	6,000,000	-
Realty Transfer	2,400,000	704,348	1,800,000	(600,000)
<b>SubTotal - Taxes</b>	<b>1,677,300,000</b>	<b>55,667,663</b>	<b>1,727,935,000</b>	<b>50,635,000</b>
<b>Departmental Receipts</b>				
Licenses and Fees	102,000,000	(247,254)	63,300,000	(38,700,000)
Fines and Penalties	26,200,000	2,200,000	25,800,000	(400,000)
Sales and Services	30,000,000	-	30,000,000	-
Miscellaneous Departmentals	32,967,000	(240)	32,967,000	-
<b>SubTotal</b>	<b>191,167,000</b>	<b>1,952,506</b>	<b>152,067,000</b>	<b>(39,100,000)</b>
<b>Taxes and Departmentals</b>	<b>1,868,467,000</b>	<b>57,620,169</b>	<b>1,880,002,000</b>	<b>11,535,000</b>
<b>Other Sources</b>				
Gas Tax Transfer	20,250,000	-	15,925,000	(4,325,000)
Other Miscellaneous	21,066,910	352,805	4,634,355	(16,432,555)
Lottery	121,800,000	9,100,000	125,200,000	3,400,000
Unclaimed Property	4,000,000	(800,000)	3,800,000	(200,000)
<b>SubTotal</b>	<b>167,116,910</b>	<b>8,652,805</b>	<b>149,559,355</b>	<b>(17,557,555)</b>
<b>Total General Revenues</b>	<b>2,035,583,910</b>	<b>66,272,974</b>	<b>2,029,561,355</b>	<b>(6,022,555)</b>